

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION
INDUSTRIAL DEVELOPMENT BONDS**

Meeting Date: March 20, 2007

Request for Initial and Final Resolution and Tax-Exempt Bond Allocation Approval

Prepared by: *Janet Haynes*

Issuer:	California Enterprise Development Authority (CEDA)	Amount Requested:	\$10,000,000(TE) \$2,000,000 (TX)
Borrower:	Tri Tool, Incorporated and/or a related entity	Application No.:	07-0002
User:	Tri Tool, Incorporated and/or a related entity	IR & FR No.:	07-0002
Location:	City of Rancho Cordova, Sacramento County		

Borrower/User/Background: Tri Tool, Incorporated (the “Company”), was incorporated on August 15, 1972 in California. The Company designs and manufactures precision portable machine tools for pipe beveling, tube squaring and severing, and clamshells for in-line cutting and flange facing equipment. The Company also produces heavy-duty pipeline machinery, provides custom machinery design and manufacturing, on-site machining services and equipment rental services for a wide variety of industries including the pharmaceutical, shipbuilding, power generation, oil production, and transportation industries.

For the proposed Project, Tri Tool, Incorporated and/or a related entity will be the Borrower of the bond funds and the User of the Project.

Project Information: Bond proceeds will be used for the acquisition of land, the acquisition and renovation of an existing building, and the acquisition and installation of new production equipment, including computer controlled milling, cutting, and machining equipment. The Company currently is leasing a facility on Security Park Drive located in the City of Rancho Cordova. The Company has utilized the current facility to its maximum capacity and needs a larger facility. The new facility will be located on Sunrise Boulevard in the unincorporated area of Sacramento County and will accommodate a production area as well as provide areas for engineering, sales, and administrative functions. The new facility also will provide adequate space for future growth.

Anticipated Timeline: The building renovation will begin on June 1, 2007, and all renovation and equipment installation will be completed by Summer 2010.

Prior Actions/Financing: None

Local Government Support: The County of Sacramento, Department of Economic Development and Intergovernmental Affairs, submitted a letter expressing its support for the Project (Attachment A). The letter states that, without IDB financing for the Project, the County and the State of California would be in danger of losing jobs currently provided by Tri Tool and would forsake the future manufacturing jobs Tri Tool is expected to create. The letter also verifies that the Company will acquire property that is currently vacant and that has been vacant for some time.

Statutory Criteria: 1) Public Benefits, 2) Relocation and 3) Bond Issue Qualification. The points noted below have been awarded based on evaluation consistent CDLAC guidelines.

- 1) **PUBLIC BENEFITS:** The CIDFAC staff assigned a total of 50 verifiable points to the Project, which are detailed as follows:

Employment Benefits (Job Retention/Creation 15 points): The Company represents that it currently employs 107 individuals and anticipates hiring an additional 100 employees two years after completion of the project.

Welfare-to-Work Program (5 points): The Company provided a letter from Sacramento County's Department of Human Assistance that verifies its participation in the CALWorks Welfare-to-Work program (Attachment B).

Health Care Benefits (5 points): The Company provided documentation of its contribution to the medical and dental insurance for 86 of its 107 employees and their families. The contribution translates into an average \$501.54 per month toward the health care benefits for each participating employee. The 21 employees who are not participating in the Company's health plan opted out for personal reasons.

Average Hourly Wage (5 points): The Company's average hourly wage is \$29.52, while the Metropolitan Statistical Average (MSA) for Sacramento has an average manufacturing hourly wage of \$16.42. Therefore, the Company's average hourly wage is 180% of the MSA wage for Sacramento.

Land Use/Energy Efficiency (15 points): The Company provided a letter from the County of Sacramento, Department of Economic Development and Intergovernmental Affairs, that verifies that the proposed project will reuse a vacant developed existing building (See Attachment A).

The project is located within ¼ mile of the Regional Transit Light Rail and Bus Line pick-up and drop-off site which services cities throughout Sacramento County.

The Company provided a letter from Indoor Environmental Services (IES) that verifies the installation of energy saving devices, such as energy efficient lighting fixtures and skylights to introduce natural day lighting, and the implementation of mechanical energy conservation measures. The new energy saving features will result in an energy savings of at least 15% when compared to the California Energy Commission's 2005 Building Energy Efficiency Standards Nonresidential Compliance Standards (Attachment C).

Leveraging (5 points): The total cost for this project is \$14,041,500. In addition to the \$10,000,000 in tax-exempt IDB bonds, the Company plans to borrow \$2,000,000, or 14% of the cost, in taxable bonds. It also will borrow \$2,041,500, or 15% of the cost, through a conventional loan.

- 2) **RELOCATION OF COMPANY OPERATIONS (No point evaluation required):** The Company will be relocating approximately five miles from the City of Rancho Cordova to an unincorporated area of Sacramento County. The Company provided a letter from the Director of Economic Development for the City of Rancho Cordova which

acknowledges the relocation, and verifies that the City of Rancho Cordova does not object to the issuance of bonds to finance the Project (Attachment D).

- 3) **QUALIFICATION OF BOND ISSUANCE (No point evaluation required):** Based upon the proposed financing structure, and based upon the application and other materials submitted to the Commission for the proposed Project, staff believes that the Bonds that will be issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just and equitable to a purchaser of the Bonds; and (c) will not work a fraud upon the Bond purchasers. Final determination of qualification of the Bonds will be subject to review of final bond documents prior to the issuance of bonds.

Status of Permit/Other Required Approvals:

- California Enterprise Development Authority (CEDA) adopted resolutions approving the financing of the Project on November 20, 2006 and February 7, 2007.
- A TEFRA hearing was held by the County of Sacramento on February 13, 2007, and no comments were received in support of or in opposition to the Project.
- The Company provided verification from the County of Sacramento, Department of Economic Development and Intergovernmental Affairs, that the project meets local land use and zoning requirements and that all construction permits are in place.

Financing Details: The Project will be funded with tax-exempt and taxable Industrial Development Bonds (IDB's) secured by a Direct Pay Letter of Credit from Comerica Bank. The anticipated rating of the bonds will be A+/F1 by Fitch and repayable over 25 year term.

Financing Team:

Issuer:	California Enterprise Development Authority (CEDA)
Underwriter:	Gates Capital Corporation
Bond Counsel:	Kutak Rock LLP
Financial Advisor:	Growth Capital Associates, Inc.

Legal Questionnaire: The staff has reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the Application. There was no information disclosed that raises questions concerning the financial viability or legal integrity of the applicants.

Staff Recommendation: Staff recommends the approval of Initial and Final Resolution No. 07-0002 for an amount not to exceed \$10,000,000 in tax exempt bonds and \$2,000,000 of taxable bonds for Tri Tool Incorporated and/or a related entity, subject to staff analysis and approval of final bond documents, including receipt of bond counsel opinion and CDLAC allocation approval as set forth in Initial and Final Resolution No. 07-0002.

**Borrower/User: TRI TOOL
INCORPORATED AND/OR A RELATED
ENTITY**

**Total Bond Amount: \$10,000,000(TE)
\$2,000,000(TX)**

California Enterprise Development Authority
(CEDA)

Unincorporated area of Sacramento County

Application No. 07-0002

March 20, 2007

STAFF SUMMARY –CIDFAC

Prepared by: *Janet Haynes*

ISSUE:

On behalf of Tri Tool Incorporated (the “Company”), the California Enterprise Development Authority (“CEDA” or the “Issuer”) requests approval of the Initial and Final Resolution No. 07-0002 for an amount up to \$10,000,000 in tax-exempt bonds and \$2,000,000 of taxable bonds. Bond proceeds will be used for acquisition of land, acquisition and renovation of an existing building, the acquisition and the installation of new production equipment, including computer controlled milling, cutting, and machining equipment, and payment of certain costs of issuance and credit enhancement costs.

CDLAC. CDLAC allocation will be requested at the March 21, 2007 meeting.

TEFRA. A TEFRA hearing was held by the County of Sacramento on February 13, 2007, and no comments were received in support of or in opposition to the Project.

BORROWER/USER:

Borrower/User: Tri Tool Incorporated was incorporated on August 15, 1972 in California.

The owners of Tri Tool Incorporated are:

Wernette Family Trust	89.8
Carl A. Anderson	5.1
George & Jerri Wernette	<u>5.1</u>
Total:	100.00%

For the proposed Project, Tri Tool, Incorporated and/or a related entity will be the Borrower of the bond funds and the User of the Project.

Legal Questionnaire. The Staff has reviewed the Company’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raises questions concerning the financial viability or legal integrity of this applicant.

Type of Business. The Company designs and manufactures precision portable machine tools for pipe beveling, tube squaring and severing, clamshells for in-line cutting and flange facing equipment. The Company also produces heavy-duty pipeline machinery, provides custom machinery design and manufacturing, on-site machining services and provides equipment rental

options for a wide variety of industries including pharmaceutical, shipbuilding, power generation, oil production, and transportation.

Prior Actions and Financings. The Company has no outstanding tax-exempt financings.

Local Government Support: The County of Sacramento, Department of Economic Development and Intergovernmental Affairs, submitted a letter expressing its support for the Project (Attachment A). The letter states that, without IDB financing for the Project, the County and the State of California would be in danger of losing jobs currently provided by Tri Tool and would forsake the future manufacturing jobs Tri Tool is expected to create. The letter also verifies that the Company will acquire property that is currently vacant and that has been vacant for some time.

PROJECT INFORMATION:

Project Description. Bond proceeds will be used for the acquisition of land, the acquisition and renovation of an existing building, and the acquisition and installation of new production equipment, including computer controlled milling, cutting, and machining equipment. The Company is currently leasing a facility on Security Park Drive located in the City of Rancho Cordova. The Company has utilized the current facility to its maximum capacity and needs a larger facility. The new facility will be located on Sunrise Boulevard in the unincorporated area of Sacramento County and will accommodate a production area as well as provide areas for engineering, sales, and administrative functions. The new facility also will provide adequate space for future growth.

Anticipated Timeline. The building renovation will begin on June 1, 2007, and all renovation and equipment installation will be completed by Summer 2010.

Permitting and Environmental Approvals. The Company provided verification from the County of Sacramento, Department of Economic Development and Intergovernmental Affairs, that the Project meets local land use and zoning requirements and that all construction permits are in place.

STATUTORY CRITERIA:

1) Public Benefits, 2) Relocation, and 3) Bond Issue Qualification.

The points noted below have been awarded based on evaluation consistent with CDLAC guidelines.

1) **PUBLIC BENEFITS:** The CIDFAC staff assigned a total of 50 verifiable points to the Project, which are detailed as follows:

Job Retention/Creation (15 points): The Company represents that it currently employs 107 individuals and anticipates hiring an additional 100 employees two years after completion of the project.

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The project is located within ¼ mile of the Regional Transit Light Rail and Bus Line pick-up and drop-off site which services cities throughout Sacramento County.

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Leveraging (5 points): The total cost for this project is \$14,041,500. In addition to the \$10,000,000 in tax-exempt IDB bonds, the Company plans to borrow \$2,000,000, or 14% of the cost, in taxable bonds. It also will borrow \$2,041,500, or 15% of the cost, through a conventional loan.

- 2) **RELOCATION OF COMPANY OPERATIONS (No point evaluation required):** The Company will be relocating from the city of Rancho Cordova city limits to an unincorporated area in Sacramento county. The Company provided a letter from the Director of Economic Development for the City of Rancho Cordova which acknowledges the relocation, and verifies that the City of Rancho Cordova does not object to the issuance of bonds to finance the Project (Attachment D).
- 3) **QUALIFICATION OF BOND ISSUANCE (No point evaluation required):** Based upon the proposed financing structure, and based upon the application and other materials submitted to the Commission for the proposed Project, staff believe that the Bonds that will be issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just and equitable to a purchaser of the Bonds; and, (c) will not work a fraud upon the Bond purchasers. Final determination of qualification of the Bonds will be subject to review of final bond documents prior to the issuance of bonds.

FINANCING DETAILS:

The Project will be funded with tax-exempt and taxable Industrial Development Bonds (IDB's) and secured by a Direct Pay Letter of Credit from Comerica Bank. The bonds will be payable over a term of 30 years or less.

FINANCING TEAM:

Issuer	California Enterprise Development Authority (CEDA)
Bond Counsel	Kutak Rock LLP
Financial Advisor	Growth Capital Associates, Inc.

RECOMMENDATION:

Staff recommends the approval of Initial and Final Resolution No. 07-0002 for an amount not to exceed \$10,000,000 in tax exempt bonds and \$2,000,000 in taxable bonds for Tri Tool Incorporated and/or a related entity, subject to staff analysis and approval of final bond documents, including receipt of bond counsel opinion and CDLAC allocation approval as set forth in Initial and Final Resolution No. 07-0002.

INITIAL AND FINAL RESOLUTION
OF THE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION (CIDFAC)
INDUSTRIAL DEVELOPMENT BONDS
IR/FR #07-0002

WHEREAS, the California Enterprise Development Authority (CEDA) (Authority) has transmitted the application of Tri Tool Incorporated and/or a related entity (Applicant) for the issuance of up to \$12,000,000 of tax exempt bonds and taxable bonds under the provisions of the California Industrial Development Financing Act, and has informed the California Industrial Development Financing Advisory Commission (the Commission) that it has adopted a resolution declaring its intention to issue such bonds and that the County of Sacramento has held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Authority; and

WHEREAS, the Commission has reviewed the application and the materials submitted with the application.

NOW, THEREFORE, the Commission resolves as follows;

Section 1. The Commission, based on its review of the application and the information submitted therewith, does determine that:

(a) the public benefits from the acquisition of the facility described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the estimated principal amount of \$12,000,000; and

(b) use of the Project described in the application and the operation of the facility described in the application is reasonably necessary to prevent the relocation of substantial operations of the Applicant from an area within the State of California to an area outside of the State of California.

Section 2. The Commission conditionally finds that the proposed issuance of the bonds qualifies under the provisions of Article 5 of Title 10 of the Government Code, and further finds that:

(a) the bonds will be adequately secured and the funds available to the Applicant will apparently be sufficient to pay the principal of and interest on the bonds to be issued; and

(b) based on its review of the preliminary material submitted to it and as provided for under Government Code Section 91571, the proposed issuance will be fair, just and equitable to a purchaser of the bonds, and that the bonds proposed to be issued and the methods to be used by the Authority in issuing them will not be such as will work a fraud upon the purchaser thereof.

Section 3. The Commission determines that it is appropriate to the proposed transaction that the qualification of the proposed issuance be subject to the following conditions:

(a) that the final legal documents, when ready for execution, be submitted for review by Commission staff. Submitted documents shall include:

- (i) Loan Agreement,
- (ii) Indenture of Trust,
- (iii) Opinion of Bond Counsel
- (iv) Bond Resolution,
- (v) Letter of Credit, and
- (vi) Other documents which, in the opinion of Commission staff, are necessary to the review of the transaction;

(b) that the Commission staff determine that the final documents associated with the transaction have been developed in form and content substantially similar to the representations in the application on which the findings under Section 2. above are based;

(c) that the bonds, when issued, are within the maximum limitation of bonds authorized in the California Industrial Development Financing Act (Section 91573(a) of California Government Code);

(d) that the Commission receive all applicable fees prior to the issuance of the bonds or that bond documents indicate that such fees are to be paid from the proceeds of the bonds; and

(e) that the Applicant has agreed to comply with Section 91533(l) of the Government Code relating to the payment of prevailing wages.

Section 4. This Resolution shall cease to be effective if the above-described bonds have not been issued within six months after the date of adoption of this Resolution.

Section 5. In compliance with the provision of the California Industrial Development Financing Act (Section 91754 California Government Code), the qualification of the proposed bond issue by this resolution is permissive only, and does not constitute a recommendation or endorsement of the bonds so qualified by the Commission.